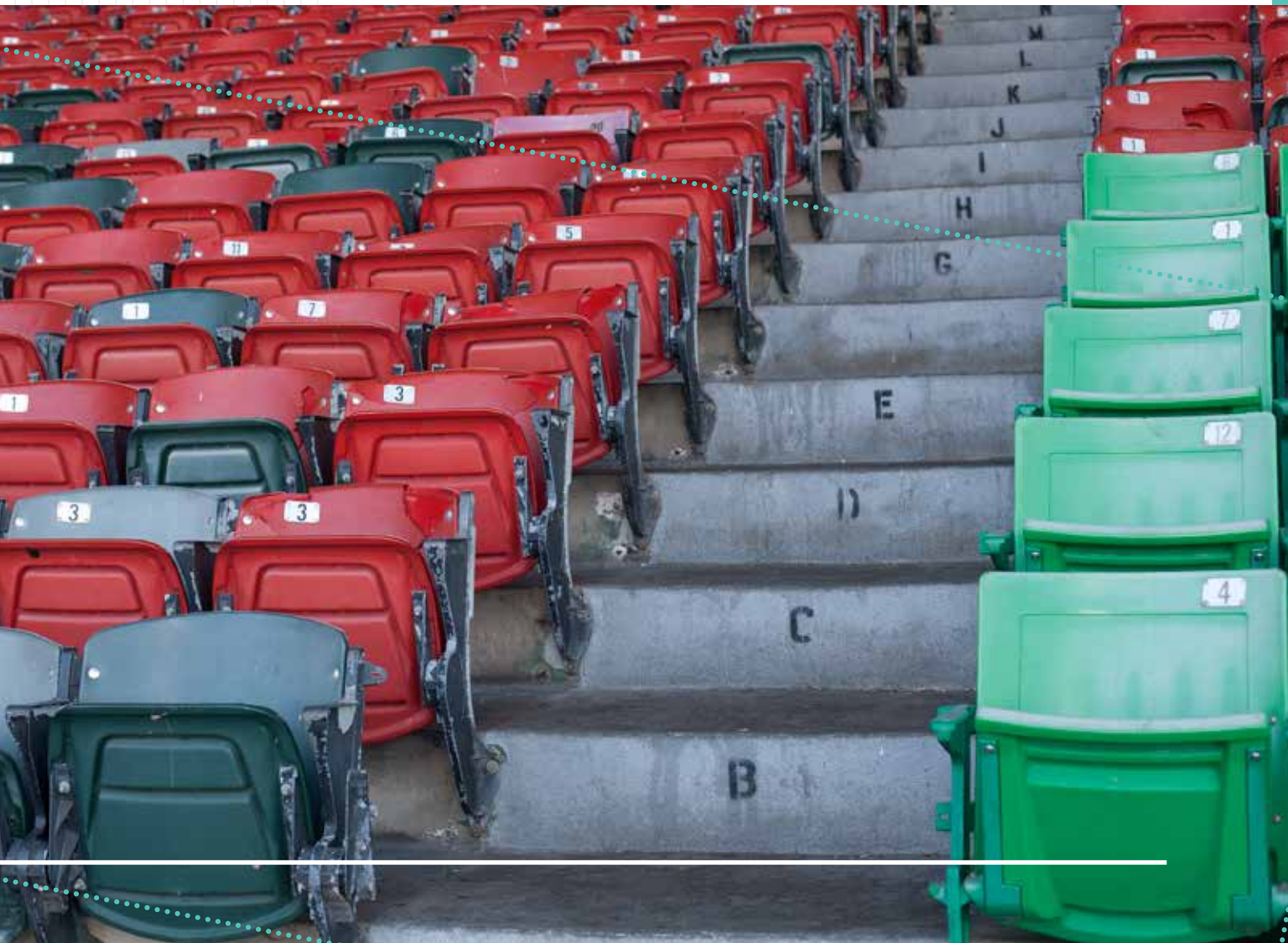


Visitor's Economy



To date, the Puerto Rico Tourism Company¹ has reported 153 endorsed properties, which totals approximately 14,500 rooms. Moreover, data from AirDNA highlights an additional 16,710² units for short-term rental. Between endorsed hospitality projects and short-term rentals, Puerto Rico offers 30,476³ lodging options to more than 3.8 million international and domestic tourists annually.⁴ Compared to the Dominican Republic and its over 80,000 hotel rooms,⁵ Puerto Rico's competitiveness to host Caribbean-bound tourists falls significantly behind.

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- 1 Tourism Analytics. "Latest News on Puerto Rico Tourism." Accessed August 26, 2024. <https://tourismanalytics.com/latestnews.html>.
 - 2 AirDNA. "San Juan, Puerto Rico Market Overview." Accessed August 26, 2024. <https://www.airdna.co/vacation-rental-data/app/us/puerto-rico/san-juan/overview>.
 - 3 Foundation for Puerto Rico, National Association for Latino Community Asset Builders [NALCAB], and Francis Pérez, "The State of Housing in Puerto Rico," Foundation for Puerto Rico, accessed May 12, 2023, <https://foundationforpuertorico.org/en/housing-in-puerto-rico/>.
 - 4 "Desarrollo e importancia del turismo para Puerto Rico," DatosMundial, accessed May 1, 2023, <https://www.datosmundial.com/america/puerto-rico/turismo.php>.
 - 5 Dominican Republic Ministry of Tourism. Dominican Republic Tourism Official Website, accessed April 14, 2023, <https://www.godominicanrepublic.com/>.



In an effort to increase and strengthen the position of Puerto Rico as a leading player in the Caribbean basin, incentives are available for more than just casinos and hotels. It invites new tourism opportunities from unique lodging experiences, showcasing the island's natural resources to e-sports and fantasy leagues that overlap with the incentives provided to companies manufacturing a product (see Chapter 6), exporting a service (see Chapter 3), or increasing the agricultural output of the island (see Chapter 8).

Eligible Businesses¹

1. Experiences: businesses providing tours, excursions, and experiences on land or at sea.
2. Accommodations: properties that design lodging and living accommodations for tourists and visitors.
3. Attractions: businesses that attract tourists to the island, such as events, concerts, and other activities that have a direct economic impact on the tourism industry.

5.1

→ Experiences

1. Nautical Tourism Activity

This designation includes businesses that provide services to nautical tourists such as chartering nautical tourism vessels for leisure, recreation, or educational purposes to tourists, including excursions; and the leasing of small boats, watercraft, kayaks, sailboats, or other similar vessels.

2. Agritourism

This designation expands to Bona Fide Farmers (see Chapter 8) and includes agri-lodging, agri-theme parks, and food processing plants. Services can be rendered to local schools, visitors, and tourists if an educational component is included. A Bona Fide Farmer must conduct all organized activities, tours, classes, and experiences for a fee.

¹ Puerto Rico Incentives Code, Art. 2051.01, 13 L.P.R.A. § 45441 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

3. Corporations Committed to Tourist Activity

This designation includes businesses leasing one or more sail or motor vessels for a minimum of 6 months per calendar year. Additionally, these corporations must operate within the Puerto Rico Convention Center District and be engaged in entertainment, gastronomy, or other activities with a unique design, popularity, and reputation in their respective markets, attracting local and international tourists.

4. Businesses Dedicated to Tourism Activities (E-Sports and Fantasy Leagues)

This designation includes events and activities that increase tourism to Puerto Rico and certain entertainment districts on the island. Some examples include e-sport events and fantasy leagues. These types of competitions profile Puerto Rico as a destination for gaming enthusiasts.

5. Vessel Leasing Program

This designation includes businesses dedicated to renting 32-foot or greater sailboats or motorboats for leisure or recreation.

5.2

→ Accommodations²

1. Agri-lodging

This designation is reserved for Bona Fide Farmers (see Chapter 8) who wish to receive and accommodate visitors. This type of lodging enables visitors to participate in activities related to nature or agritourism and explore rural areas of Puerto Rico. This designation requires operators to reside on the property, provide breakfast, and follow the Bed and Breakfast (B&B) requirements.

Minimum: 3 rooms | Maximum: 6 rooms

2. Bed and Breakfasts

This designation includes properties where the owner or operator resides on-site and offers overnight accommodations and breakfast to their guests. This arrangement provides visitors a more personal and intimate experience and serves as an additional source of income for the property owner or family.

Minimum: 3 rooms | Maximum: 6 rooms

² Puerto Rico Incentives Code, Art. 2051.01, 13 L.P.R.A. § 45441 (2023). <https://bvirtualllogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



3. Guesthouses

This designation includes lodging options that provide personalized experiences for guests. They can be private homes or small inns offering short-term room rentals. While guesthouses may vary in comfort and luxury, they are known for their warm atmosphere. In addition, they may offer amenities like homemade meals, shared spaces, and outdoor areas for relaxation.

Minimum: 7 rooms | Maximum: None

4. Condo Hotels

This designation includes real estate property that combines the features of a condominium with those of a hotel. Condo hotels are typically multi-unit buildings managed by a hotel or resort operator, where each unit is individually owned by a person or an entity. These are often horizontal property and must comply with Puerto Rico Condo Hotels Act.

These hotels must have at least 15 rooms dedicated to tourists and visitors. All other units may be sold in the open market during the construction phase or whilst operating, which is something that enables the company to secure additional capital to develop the project without raising additional debt.

Furthermore, this designation may extend the eligible operational investment period from 12 to 48 months. Additional restrictions and requirements will apply for the owner of each unit and the time they may reside there. In no scenario will these units be eligible as primary residences.

Minimum: 15 units | Maximum: None

5. Hotels

These are commercial establishments that provide lodging and other related services to travelers, tourists, and residents. Generally, a hotel offers guests a temporary place to stay for a fee, with various amenities, such as beds, private bathrooms, and sometimes meals. This designation allows income from additional amenities, such as a spa, waterpark, or restaurant, to be eligible for preferential tax treatment.

Minimum: 7 rooms | Maximum: 25 rooms

6. Puerto Rican Paradores

This designation is reserved for properties and accommodations outside the metropolitan area. Each one looks to promote destinations representative of the island's history, culture, and character.³ Moreover, additional income from their restaurants, tours, spas, and other offered amenities may be eligible to receive preferential tax treatment.

Minimum: 7 rooms | Maximum: 75 rooms

7. Villas

These include any buildings or dispersed buildings that contain 7 to 50 housing units, with each unit having at least one bedroom, living room, bathroom, and kitchen. Tourism villas are usually outside the metropolitan area and cater to families looking for extended stays.

Minimum: 7 units | Maximum: 50 units

8. Hostels

These are lodging accommodations offering guests a bed in a private or shared room while adhering to safety and hygiene standards. This designation allows communal bathrooms and showers and does not require ensuite bathroom facilities.

Minimum: 12 beds⁴ | Maximum: 25 beds

³ Puerto Rico Tourism Company, "Lodging Categories and their Definitions," n.d., <https://tourism.pr.gov/project-categories/>.

⁴ See Reglamento de Hospederías at Page 8, letter Q, *Reglamento-de-Hospederías-Aprobado-22-de-noviembre-de-2016-1.pdf*, <https://tourism.pr.gov/wp-content/uploads/2019/06/Reglamento-de-Hospederi%C3%81as-Aprobado-22-de-noviembre-de-2016-1.pdf>

9. Inns

This designation is meant for the network of small- and medium-sized themed lodgings in historic urban centers. Inns' objective is to provide visitors with an opportunity to experience a town's history and culture through their lodging accommodations, which in turn aids the urban center's economic revitalization.

Minimum: 7 rooms | Maximum: 25 rooms

10. Glamping, Eco-Tourism, Alternate Designations

These are alternative accommodations that include luxury camping areas (for glamping), ecolodges, and sustainable tourism. They fall under designations that may also consider innovative proposals for creative or sustainable lodging approaches. Other types of development may apply as well, provided they meet the minimum established requirements under one or more of the designations.

Minimum: 7 rooms | Maximum: None

11. Timeshares

Timeshares allow individuals to pool money into acquiring a hotel room, suite, or villa for a fraction of the price. In return, they can schedule a week or two out of the year to enjoy these properties. Although developing timeshare properties is an eligible activity under this designation, investors who purchase these assets may not claim any investment as an eligible investment or tax credits.

Minimum: None | Maximum: None

5-3

→ Attractions⁵

1. Marinas

This designation includes marinas when more than half of their spaces are reserved for boats dedicated to rental activities. The facilities will primarily cater to tourists, generating most of their revenue from activities related to tourism.

⁵ Puerto Rico Incentives Code, Art. 2051.01, 13 L.P.R.A. § 45441 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



2. Theme Parks

These are permanent structures or facilities that stimulate tourism under a specific or unifying theme by offering residents and visitors an opportunity for recreation, leisure, and enjoyment. These parks may be associated with or operated by an eligible accommodation. In addition, operators may combine the main attraction with additional ones, such as intriguing rides or roads, theme rides, arcades, kiosks, and others.

3. Clinics for Medical Treatment

This designation includes facilities that offer medical treatment to patients. In order for a facility to be eligible, the clinic must either be part of a hospitality project or affiliated with or run by a hospitality project recognized as an exempt business under the Tourism Office program.

4. Medical Tourism

This designation includes certified and accredited medical facilities in Puerto Rico developing lodging options for patients and their families, whether inside hospitals or adjacent.

5. Golf Courses

To be considered as part of this designation, these courses must contain a minimum of 9 holes and be associated with or operated by eligible accommodations or lodging businesses. Likewise, the designation applies to the land used to practice the sport.

6. **Property Dedicated to Tourism Activities**

This applies to any property (and its improvements) that is used specifically for operating a tourism business. It encompasses a comprehensive range of machinery, furniture, fixtures, and equipment essential or beneficial for any tourism business to operate.

7. **Casinos**

This designation includes establishments in which betting and games of chance are practiced and where shows, dances, or other types of entertainment are sometimes offered. They can operate within a hotel or independently, which means that the operator is not required to be a hotel or have lodging available to guests.

The Benefits	
Decree Length In Years	15
Corporate Income Tax	4%
Real Estate Tax Exemption	75%
Excise Tax and Construction Tax Exemption	75%
Dividends Tax Exemption	100%
Municipal Tax Exemption	50%
Local Purchase Tax Credit	25%
Tax Credit For Eligible Investments	30% - 40%
Sales and Use Tax Exemption	100% on Eligible Purchases
Stamps and Property Registry Exemption	90%
Bond and Promissory Notes Exemption (Loan Issuer)	100%

Eligibility Requirements

Eligibility requirements vary depending on the type of hospitality project reviewed. These take zoning laws, proximity to natural assets, and the experience of the operators into consideration. For all tourism businesses, the following is a list of the criteria and requirements that apply.

In order to yield benefits for Puerto Rico, these businesses must pledge to:

- a. Generate jobs during their construction and operation phases

- b. Harmoniously merge with the place and community in which the tourism activity takes place
- c. When feasible, purchase materials in Puerto Rico
- d. To the extent possible, purchase agricultural products from Puerto Rico
- e. Contract locally or through intermediaries based in Puerto Rico
- f. Demonstrate a relationship with banks and cooperatives in Puerto Rico
- g. Submit proposals for the purchase of properties that would qualify for the tax incentive before they are purchased

General Benefits

- 1. The incentive has a duration of 15 years. If requested, it can be extended for 15 additional years, providing up to 30 years of preferential tax treatment to the business.
- 2. The corporate income tax rate is 4%.
 - a. If the company is less than 3 years old and has not surpassed \$3,000,000 in gross revenues at the moment of applying for the incentive, the eligible business may obtain a 2% corporate income tax during the first 5 years in operations as a new SME (see Chapter 1).
- 3. Royalties, rents, and licenses will be taxed at 12%.
- 4. It includes a 75% exemption for all real estate taxes, including excise taxes or taxes on construction. This right is to be shared with contractors and subcontractors.
- 5. The entity's shares are not subject to the payment of property taxes.
- 6. There is a 50% exemption from municipal taxes or municipal patents for the duration of the decree.
- 7. The partners and shareholders of the entity will be tax-exempt on dividend distributions.
- 8. Any person with a bond or promissory note from the eligible business will not be subject to taxes on the payments to such bonds or promissory notes.
 - a. That debt must have been used for the exempt tourist business's construction, rehabilitation, or improvements.

9. There is a 90% exemption on stamps and other expenses required to register the property in the Property Registry of Puerto Rico.
10. It includes a 100% exemption on excise taxes as well as the sales and use tax (SUT). These exemptions apply to products purchased for the entity's tourist activities, including fuel and items purchased for construction work. If paid, all these taxes are subject to credit or refund.
11. There is a 30% or 40% tax credit for the total eligible investment required to rehabilitate or remodel a property that will serve as lodging under this incentive (see the Tax Credits section below).
12. It includes a 25% or 30% tax credit for all purchases of locally manufactured items.

Regulations

While the requirements for developing a lodging project vary by design, style, and amenities, some of the most common elements defined in the regulations include:



1. Total number of parking spaces available to guests
2. Types of amenities available to guests
3. Number of bathrooms⁶
4. Ensuite furniture and security provisions (i.e. safes and door locks)
5. Types of lock and access mechanisms to each room
6. Number of rooms
7. Food, beverage, spa, or other operating income
8. Front desk and the hours of operation

Tax Credits

Tax credits are given by Hacienda through a certificate that can be used to offset current or future taxes. Tax credits can be sold to other businesses for income. Some financial entities even accept credits as collateral for loans or as a down payment for acquiring a property or other assets. Banks like Oriental, Banco Popular, and First Bank often navigate acquisition and construction loans with additional ease if businesses produce a tax credit.

Tourism Tax Credits Formula

All tax credits are calculated based on the Total Project Cost (TPC) of the hospitality project to be developed. The three variables that contribute to the final total project cost are:

- P** = Property value (when the site and structure are acquired)
- R** = Remodeling costs (the cost to remodel or develop the property)
- O** = Operating costs for the first 12 months (the costs incurred during the first 12 months of operations)⁷
- TPC** = Total Project Cost

-
- 6 A hostel does not need to have a private bathroom per bedroom, per Reglamento de Hospederías. See P. 44, letter B of the document. A hostel, per the applicable regulation, must meet the physical requirements imposed by the corresponding regulations. Id. To conclude, those requirements do not include a private bathroom per bedroom. Id.
 - 7 Some developments, such as condo hotels or timeshares, may seek additional months due to the costs incurred marketing a condo or timeshare unit; the costs to close a transaction; and other marketing, operational, and closing costs.

When calculating the TPC, two formulas dictate if the value of the property is eligible to receive a tax credit. The formulas are as follows:

Formula 1: If P is greater than $R + O$, then $TPC_1 = R + O$

Formula 2: If P is less than $R + O$, then $TPC_2 = P + R + O$

If the sum of the operating costs during the first 12 months and the remodeling or development costs are greater than the property value of the site acquired, the sum of only the remodeling or development and operating costs will constitute the project's Total Project Cost (TPC_1).

If the sum of the operating costs during the first 12 months and the remodeling or development costs are less than the property value of the site acquired, the sum of all three investments is the project's Total Project Cost (TPC_2).

Tax Credits of 30% or 40%⁸

After determining the Total Project Cost (TPC_1 vs. TPC_2), the operator of a tourism development may ask in their decree application to receive 30% or 40% of the total project cost in the form of tax credits. Each amount has different requirements, and it will be disbursed by Hacienda at different stages of the project.

Choosing 30% in Tax Credits

If a business opts for 30% in tax credits for the TPC, the company will receive four installments. The first payment of 10% will be due whenever the project obtains 100% of the financing that is required (usually before the beginning of the construction phrase). The remaining 20% will be divided into three equal payments across the second, third, and fourth years of operations.

Choosing 40% in Tax Credits

If the business opts for 40% in tax credits for the TPC, the company will receive three equal installments throughout the first 3 years of operations. After an independent audit is conducted by a third-party accountant, Hacienda will disburse the first third of the tax credits in the second year of operations. Consecutively, the other two-thirds will be disbursed in the third and fourth years of operations.

⁸ Puerto Rico Incentives Code, 13 L.P.R.A. § 47011(b) (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

Illustrative Examples

Tourism Tax Credits

José bought a property for \$200,000 and invested \$125,000 in construction and remodeling. During the first 12 months, he spent \$100,000 in operating costs. The TPC equals \$425,000. Of this amount, the total tax credits eligible of 30% or 40% would look as follows:

Eligibility	Tax Credits	
	Claim 30%	Claim 40%
At Filing	\$42,500.00	\$0.00
Year 2	\$28,333.33	\$56,666.66
Year 3	\$28,333.33	\$56,666.67
Year 4	\$28,333.34	\$56,666.67
Total	\$127,500.00	\$170,000.00

Historic Inn

Diane acquired a historic inn for \$350,000 and invested \$250,000 in restoring and modernizing the property. Over the first 12 months of operations, she spent an additional \$100,000 on operating costs such as utilities, payroll, and marketing. The Total Project Cost (TPC) for her venture adds up to \$700,000. The potential tax credits available at either 30% or 40% would be calculated as follows:

Eligibility	Tax Credits	
	Claim 30%	Claim 40%
At Filing	\$70,000.00	\$0.00
Year 2	\$46,666.66	\$93,333.33
Year 3	\$46,666.67	\$93,333.33
Year 4	\$46,667.00	\$93,333.34
Total	\$210,000.00	\$280,000.00

When the Property Value is Higher than Remodels and Operations (TPC1)

Jack plans to open a boutique guesthouse on the coast. He submits his proposal to the DDEC and moves forward with purchasing a charming 7-suite beachfront property for \$400,000. He establishes Coastal Retreats LLC and transfers ownership of the property into the business entity. Jack then invests \$250,000 into renovating the space and furnishing it with luxurious fixtures and top-tier amenities. In the first year of operations, he incurs \$70,000 in expenses, including the mortgage, utilities, payroll, and initial supplies. Since the value of the property (\$400,000) exceeds the combined renovation and operating costs ($\$250,000 + \$70,000 = \$320,000$), the Total Project Cost (TPC) is \$320,000. Jack is eligible to apply for tax credits amounting to either 30% or 40% of the TPC.

When the Property Value is Lower than Remodels and Operations (TPC2)

Rebeca plans to operate a luxury eco-lodge in the mountains. She submits her project proposal to the DDEC and acquires a scenic 10-acre property with a main lodge and six cabins for \$300,000. She forms Eco Escapes LLC and transfers the property to the company. Rebeca then invests \$450,000 in transforming the lodge, adding eco-friendly amenities, and upgrading the cabins to high-end standards. In the first year of operations, expenses—including the mortgage, utilities, payroll, and supplies—amount to \$120,000. Since the property purchase price (\$300,000) is lower than the renovation and operational costs combined ($\$450,000 + \$120,000 = \$570,000$), the Total Project Cost (TPC) is \$870,000. Rebeca is eligible to claim tax credits for either 30% or 40% of the TPC.

Cost to File

The application for this tax incentive may be completed in phases. First, the operator must submit a pre-application to the Puerto Rico Economic Development Department. Secondly, after submitting the pre-application, the operator has 18 months to complete the decree application. Lastly, after 12 months of operations, an independent audit must be conducted by a third-party accounting firm to quantify and validate the total tax credits the business is eligible to receive. As of 2023, each audit must be conducted by someone trained and licensed by Hacienda.

In total, the cost to file should be at most \$1,110. This cost does not include any additional fees for professional services.

Cost to File		
Filing	Transaction Fee	Service Fee
Pre-Application for Tourism Activities	\$5	\$100
Business Dedicated to Tourism Activities	\$5	\$1,000